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New Toys: No Feast, But No Famine

Nationwide DSN Report

It's not 1984's gourmet smorgasbord but toy merchants see a few tasty morsels at this year's Toy Fair.

Rebounding from a disappointing Christmas and burdened with heavy inventories, toy buyers, in general, appear a bit gun-shy and will be more conservative in placing early orders this year. In fact, many have already conceded the first quarter as a "wash" but are predicting better days ahead.

Reputed superstar licenses Cabbage Patch, Masters of the Universe, Go-Bots and Transformers all have strengthened lines and buyers are expecting encore performances from each.

Indeed, Cabbage Patch Kids was so successful it virtually wiped out basic doll

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A Field in Transition: Firms Probe At-Home Electronic Retailing

By ARTHUR MARKOWITZ
Special Projects Editor

The still developing at-home electronic retailing field remains in flux as more companies probe the business and current firms seek out new technologies to expand their market.

The latest company to make a major at-home electronic retailing effort is the CompuServe home computer information services arm of H&R Block, which will launch The Electronic Mall videotex shopping service for personal computer users Feb. 25.

It will become the sixth company offering merchandise to consumers shopping at home via home computers or a TV/telephone setup.

Other major companies are poised to enter the electronic retailing and home communications business. American Telephone and Telegraphic Co. at presstime was reportedly planning to launch a joint venture that would also include Time, Chemical Bank and Bank of America. Other companies like IBM and RCA have previously announced similar endeavors.

Other companies that have offered at-home shopping via TV/phone setups are exploring the use of computer software that will enable them to provide their videotex technology services to personal computers.

Viewtron, an operation of the Knight-Ridder Newspapers, is already testing software made by Microstar that will make its TV/phone service available to owners of IBM PC computers. Software to enable IBM PCjr and Apple II owners obtain Viewtron is believed to be under development.

Consumers use Sceptre, an AT&T interactive decoder, to obtain Viewtron on their TV. The same device is used for two

(Continued on page 96)

Nakasone Is Toys "R" Us Stores Prez

ROCHELLE PARK, N.J. — Toys "R" Us, toy supermarket giant, has gone to another supermarket to find the final piece in its upper management puzzle.

Robert C. Nakasone was named president of TRU/USA stores division, a newly created position.

Nakasone was vice president and general manager of the Midwest store division of Jewel Food Stores, a division of the Jewel Companies, a Chicago-based operator of supermarkets and drug stores. Jewel was acquired last year by the American Stores Company.

TRU would not comment on Nakasone's new responsibilities but did note the appointment completed the company's restructuring into six distinct operational divisions, each with its own president or senior vice president. All report to Norman Ricken, president and chief operating officer of TRU.

Over the past year, TRU has brought in several key executives from outside the toy community. Michael Goldstein, senior vice president, finance and administration, was formerly senior vice president, operations and finance at Lerner Stores. Joseph Baczko, international divisional president, was a former ceo of an international arm of Max Factor.

Howard Moore, heading up

(Continued on page 96)

Apparel displays at Bigg's follow style of French parent Euromarche with extensive use of figure forms, price signage, and overhead signs explaining clothing sizes. *(DSN photo)*

True Euro-Style Hypermarket

Bigg's Lives Up to Its Name in Cincy

CINCINNATI — Hypermarket imitations and variants have appeared in this country with some frequency over the past 10 years.

Now the first full-scale hypermarket—in the grand European style, 65,000 sku's of food and general merchandise under one 200,000-sq.-ft. roof—has arrived.

With Bigg's, its four-month-old United States entry, Euromarche, Europe's second-largest hypermarket operator, has hit these shores. Only about three or four of the company's 55 European hypermarkets match Bigg's overall dimensions or 130,000 sq. ft. of selling space, according to Jacques LeFoll, executive vice president of Hyper Shoppes, the American subsidiary that operates Bigg's.

More photos, pp. 66-67, 94A.

Those three or four chalk up annual sales of about $100 million apiece with a $40 million break-even point, LeFoll said. He refused, however, to disclose current or projected sales for the store here.

From mid-October through January general merchandise sales ran about 50% of the new store's total sales, higher than expected, LeFoll said. A shift to a larger dollar share from food was beginning, however, he noted.

In general merchandise, between 35% and 40% of sales is being done in apparel and domestics, and the rest in hard lines, he said. The store carries about 45,000 general merchandise sku's, about half in hard lines, half in soft lines, he said.

(Continued on page 96)

IN BRIEF

- **HERMAN'S WORLD OF** Sports, the nation's leading specialty sporting goods retailer, has spun off its first off-price unit, Total Sports, in Hollywood, Fla.
- **VENTURE HAS ADDED A** new top spot: exec vp, hard lines, to be filled by Marc Balmuth, senior vp, gmm, domestics and juniors, at Macy's. Maxine Clark, exec vp, marketing, will now also head up soft lines.

Digest

Feb. 18, 1985

APPAREL

- **K mart says it will be up-to-date**, fashionwise, for fall '85. (p. 33)

HOUSEWARES

- **Intelligent risk-taking** helps Michael Anthony raise Gold Circle's net. (p. 76)

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Tight Supplies Caused Yule Ad Dilemma

Most mass retailers found their hands were tied when it came to advertising the most popular toys at Christmas. Buyers could never be 100% certain they'd receive deliveries in enough quantity to support an ad. In fact, most hot licenses were frequently on allotment and were doled out as if they were diamonds, particularly, in the case of the hottest license of them all, Cabbage Patch Kids. No one wanted to issue thousands of rainchecks or have innumerable disgruntled customers on their hands but it was important to maintain a fashion image, which is typified by popular licenses. To circumvent these problems, several chains chose to spotlight Cabbage Patch anyway, however indirectly.

Clover highlighted the Cabbage Patch appeal by offering its sports outfits on sale for $12.99 and licensed totebags for $6.99. Interestingly, the chain also featured Pumpkin dolls, a Cabbage Patch lookalike, for about half the price, at $14.99. The Pumpkin dolls can also wear the Cabbage Patch outfits. Clover was able to create interest in the license without offering the actual doll.

T.G. & Y. wouldn't sell you one but it gave them away. The chain used the doll to lure customers into its stores by offering free doll drawings on the hour. A customer had to register and be present in the store to win.

Target went for a more personal approach and chose not to trade on the Cabbage Patch name at all. The chain featured a Doll Baby kit, which, when sewn together, looks similar to a Cabbage Patch Kid. Like Cabbage Patch Kids, Doll Baby came complete with its own birth certificate. Its complete price, under $12, was quite attractive to the craft enthusiast.

Productivity Jumps May Not Be Repeated

	1974	1979	1980	1981	1982	1983	1984	10-year change	5-year change	'84 vs. '83
Dept. Size (sq. ft.)	2,746	2,646	2,660	2,660	2,650	2,500	2,500	−8.9%	−5.5%	0%
Annual Turns	4.5	3.7	3.8	3.6	3.4	3.2	3.1	−31.1%	−16.2%	−3%
Volume Per Sq. Ft.	$87	$130	$141	$147	$154	$183	$202	+132.1%	55.3%	+10.3%
Initial Markup	33%	33%	36%	35%	33%	35%	36.5%	+10.6%	+10.6%	+4.2%
Gross Margins	28%	26%	29%	28%	26%	28%	28.4%	+1.4%	+9.2%	+7.6%

Source: DSN research

Big gains in toy department productivity the last couple of years cast a rosy glow on the category but the numbers alone can also mask some problems. That's not to say discounters aren't happy with a 10.3% gain in sales per square foot last year on top of an 18.8% jump the year before.

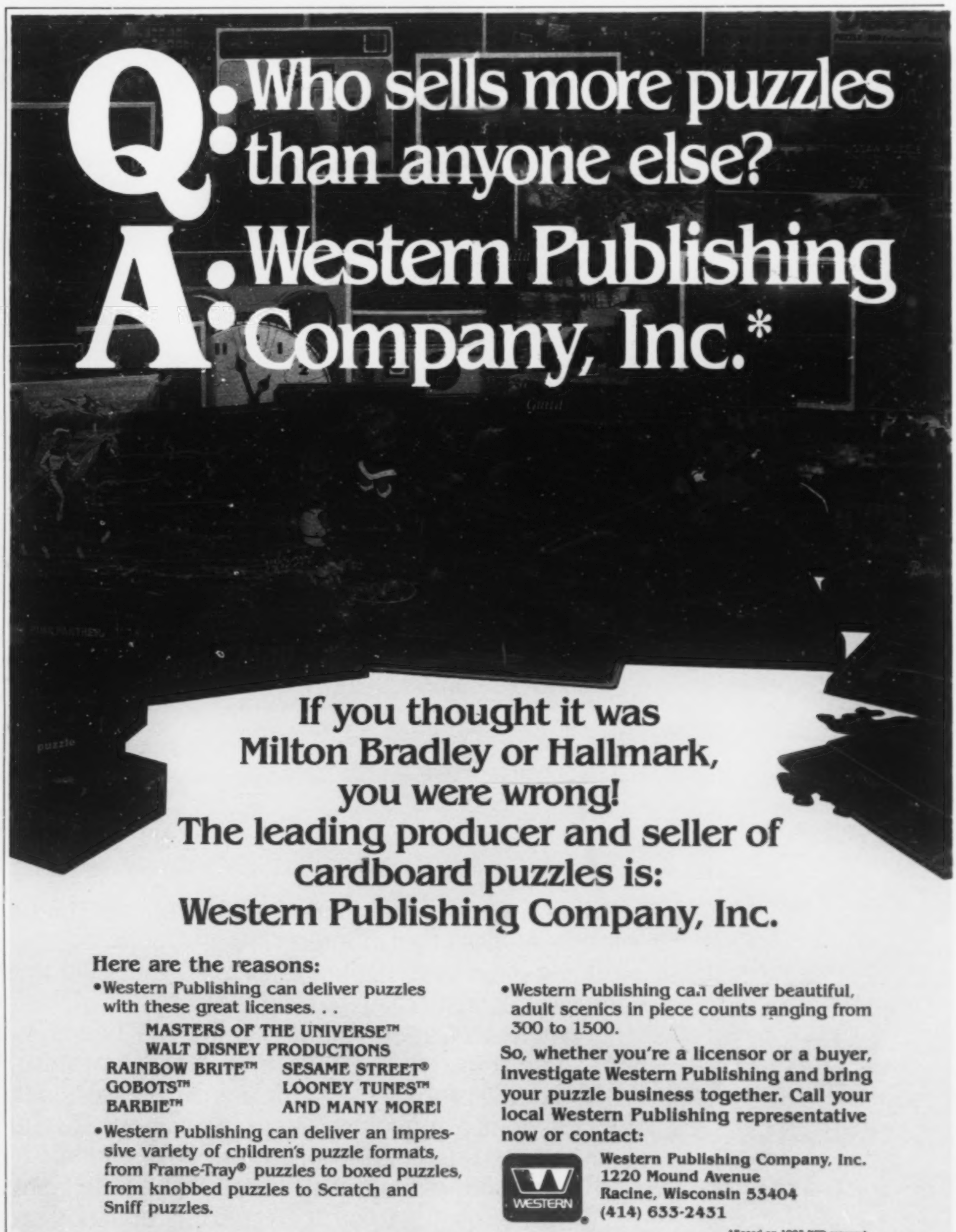
Nor should one look away from the fact that margins have been creeping up since 1982, from 26% to 28.4%, as have initial markups, from 33% to 36.5%.

It should be noted, however, that the big jumps in productivity the last two years owe a lot to a couple of phenomenons.

The jump from '82 to '83 was fueled in some significant measure by what might now be looked at as the last big gasp of electronic games—at least as a surging phenomenon. This past year volume got its big boost from a number of super-performing licenses, including GoBots, Cabbage Patch and a couple of others.

It's worth observing that the gain in sales per square foot last year was not as great as that made the year before, and that whatever margin gain there was came much harder—possibly because of the lower margins on the licensed merchandise.

It all adds up to the fact that 1985's a question mark. Buyers definitely want to see at least the kind of sales-per-square-foot gains they made in '84. Few are very confident, however, that they will.



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Gold Circle Places Loose Cigarette Packs at Checkouts

WORTHINGTON, Ohio — Gold Circle is now selling loose cigarette packs at checkout stands and has increased its emphasis on both generic and branded lower cost cigarettes.

The new program is aimed at making tobacco more visible in the stores to encourage impulse sales, and at bolstering margins with new products carrying lower price points, said buyer John Kunzi.

Before the checkout program, "loose packs were sold either at one register at the store, serviced by the checkout girl, or behind the snack bar," said Kunzi. "They didn't have the same visibility or service. Packs are now in lanes where customers can serve themselves—and, everyone must pass them."

He added that "20% of my cigarette sales were in loose packs before the new fixturing. Now it's approaching 39%. For every 10 cartons I bring in, four are sold in loose-pack form."

For the Ohio-based chain, this translates into healthier margins for the category.

Margins for national brand cartons are about 8% to 12%; more profit comes from loose packs, which carry margins of about 28%. Because of low margins, discounters depend upon high turnover, preferably in loose packs, for their productivity, along with the fees cigarette manufacturers pay to keep their brands in stock.

"If we're going to be in the tobacco business, the velocity of sales is important," said Kunzi. He expects the cigarette category to turn 10 to 15 times in the first year since resetting was completed four months ago.

The chain now has either a 4-ft. or 6-ft. cigarette carton fixture at one cash register in each store. A fixture holding tobacco products like cigars, loose and chewing tobacco, pipe cleaners, snuff, flints, fluid and paper, is located at another register. All other registers have fixtures for loose packs and lighters, which are sold along with single candy bars and gum as part of a total checkout program implemented to encourage impulse sales.

The carton fixture was changed from a tall "grocery store-type" fixture to a lower, three-sided gondola. Kunzi said the new fixture holds more cartons and blends in better with the other fixtures.

The chain carries some 25-count pack brands like Richland and Century in states that allow it, but only by the carton. The 25-count brands, which first entered the market late in 1983, are generally priced the same as 20-count brands when bought by the carton, but prices vary when sold in single units. Kunzi explained customers would resist paying $1.25 for a 25-count pack vs. 98¢ for a standard count pack.

The chain is also building its assortment of lower-priced cigarettes with the addition of Dorals, a national brand pulled from the market in 1980 and recently reintroduced as a "value priced" brand. The repositioned brand is priced competitively with generics.

"Generics sell much less, but what's important when I bring up Doral is we have a 'branded generic' at an everyday low price," said Kunzi. "It's not just a white package with black lettering on it."

The chain is still reviewing the higher-margin tobacco products like chewing and loose tobacco and accessories, which have only been in all stores three months. Previously, the products had only been in 20% of the chain's stores.

Distributors deliver orders for the category once a week. Store personnel are responsible for filling all the racks initially, and refilling the racks for loose packs from the carton rack during the week.

Kunzi conceded store employees do not always maintain the racks consistently through the week. As he works on improving the program, Kunzi said he will consider alternative solutions like adding floor space for more fixtures or having the distributor deliver orders twice a week.

Kunzi said his goal is to establish a model that is flexible enough to insure there is sufficient stock in-store to last through peak sales periods without overstocking. "We do not allow tobacco to be stored in the backroom. I give them enough room to service 1,600 cartons of cigarettes," he said. "This forces everyone to be on his toes."

Value Priced, Midpriced 'Name' Butts Challenge Generics, 25-Count Packs

Nationwide DSN Report

New "value priced" and "midpriced" versions of name brand cigarettes are challenging generics and 25-count packs, further segmenting the already divided cigarette business.

For discounters, the new products mean additional ways to offer low-cost cigarettes and still realize more than the 8% to 12% margins name-brand loose packs yield. They may also appeal to discounters who balk at carrying generic cigarettes.

Last month, Liggett & Myers launched Stride, termed a midprice cigarette that would cost 10¢ less a pack and $1 less per carton than regular priced cigarettes.

Also, R. J. Reynolds recently reintroduced Dorals at a value price—the same price as generic cigarettes—after taking the regular-priced brand off the market in 1980.

Both products are targeted at the cost-conscious consumer who still wants a name-brand cigarette.

The introductions increased competition among tobacco manufacturers for the low-priced end of the cigarette business.

Industry analysts predict low-priced cigarettes, including generics and value priced brands, should capture between 8% and 10% of the market share in 1985. Current estimates put 1984 market share at almost 6%.

The boom year for generic cigarettes, the first low-priced alternative to name brands, came in 1983, with market share for these no-frill packages reaching about 3.3% of the total United States cigarette market. By the end of 1984, generics' share of the market expanded to over 4%. Generics are priced about 20¢ per pack and between $1.50 to $2 per carton less than name brands.

The introduction of 25-count packs like R. J. Reynolds' Century and Brown & Williamson's Richland also occurred in 1983. Although higher-count packs may or may not be sold at the same price as standard-count name-brand loose packs, they are generally priced the same by the 10-pack carton. These, too, were targeted at value-conscious consumers, but have the advantage of brand identity.

At the start of this year Philip Morris, the largest cigarette maker, introduced Marlboro 25-count packs, the first major national brand to offer this alternative. However, single packs will be priced 25% more than standard-count packs, and cartons will contain 8-packs instead of 10, for a comparable 200-cigarette carton price.

Tom Keim, director of marketing communications for Philip Morris, said the new packages were designed for consumers' convenience rather than savings. He believes the higher price won't discourage discount store customers from buying the Marlboro 25-counts because the value per cigarette is equivalent to 20-counts, and because of brand identification.

This brand identification, combined with savings, is expected to support both Dorals and Stride in the marketplace.

K mart is said to have Stride cigarettes in its stores, and Gold Circle has added Dorals to its assortment.

Gold Circle buyer, John Kunzi, said he is carrying Dorals because he can offer a brand name and still "build our image as a low-price leader." The Ohio-based chain also carries 25-count packs like Century and Richland, but only in cartons.

West Virginia-based Heck's, too, has added the regular and king-sized Dorals to its assortment, and buyer Chauncey Browning has authorized store managers to pick up several sku's in 25-count packs.

Also, despite the leveling off in the generic area, some discounters like Gold Circle, Heck's and Georgia-based Richway are picking up additional sku's in generic cigarettes.

However, the success or failure of generic cigarettes is often a question of geographics. John Martin, divisional vp, consumables for Richway, said retail sales of generics account for 3% to 5% of the total cigarette sales in his area, which covers Georgia, Florida, South Carolina and Tennessee. "That's definitely big enough to warrant testing," he said.

Tobacco Mfrs.' Production Dips

Tobacco Product	1984*	1983	1982	1981	1980
Cigarettes					
Units (billions)	593.0	600.0	634.0	640.	631.5
Packs (billions)	29.7	30.0	31.7	32.0	31.6
Large Cigars (billions)	3.5	3.6	3.7	3.9	4.0
Small Cigars (billions)	1.3	1.4	1.3	1.4	1.4
Pipe Tobacco (million lb.)	30.0	33.3	33.7	36.5	37.3
Chewing Tobacco (million lb.)	87.8	86.8	90.4	90.0	NA
Snuff (million lb.)	48.3	46.7	43.8	42.5	NA

*NA—Not available. *Estimate*

Source: U.S. Dept. of Agriculture

Since 1982 production of most tobacco products has declined. Cigarettes were down 1.2% in 1984 from the year before. The only gains last year were in snuff, up 3.4%, and chewing tobacco, up 1.2%.

Snuff Production Gains Despite Industry Pinch

Nationwide DSN Report

For the third consecutive year, manufacturers' production of snuff has increased, despite a slump in cigarette, cigar and pipe tobacco product volume.

The 1984 gain in snuff, up 3.4% from the year before, is in part attributed to the continuing strength of Skoal Bandits, introduced over a year ago.

"Skoal has created the most interest in the [tobacco] area. It's a plus business," said Smitty's merchandiser Tim Howard. The item, which retails at 99¢ for a can, accounts for between 8% and 10% of the Phoenix-based chain's sales of tobacco, excluding cigarettes.

Sales of snuff, along with chewing tobacco which showed a volume gain of 1.2% in 1984 over 1983, are said to be strongest in the South and Midwest and in rural areas.

'84 Biz Up 38.6% At Dollar General

SCOTTSVILLE, Ky. — Dollar General reported 1984 net sales of $480,400,000, an increase of 38.6% over 1983 sales of $346,700,000.

Fourth-quarter sales were $160,500,000, a 21.5% increase over sales of $132,100,000 for the fourth quarter of 1983.

During 1984 the company opened 278 stores and closed 91 stores.

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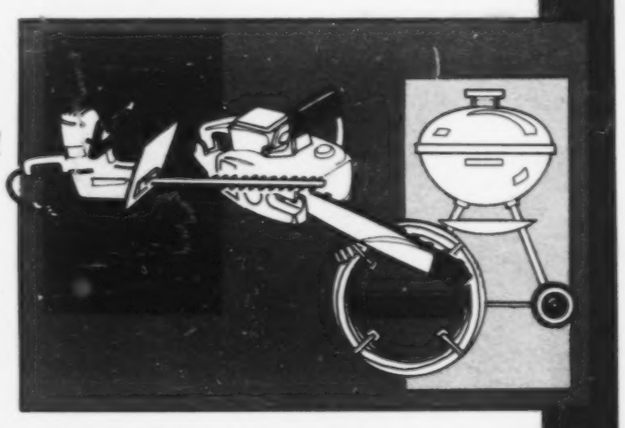

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